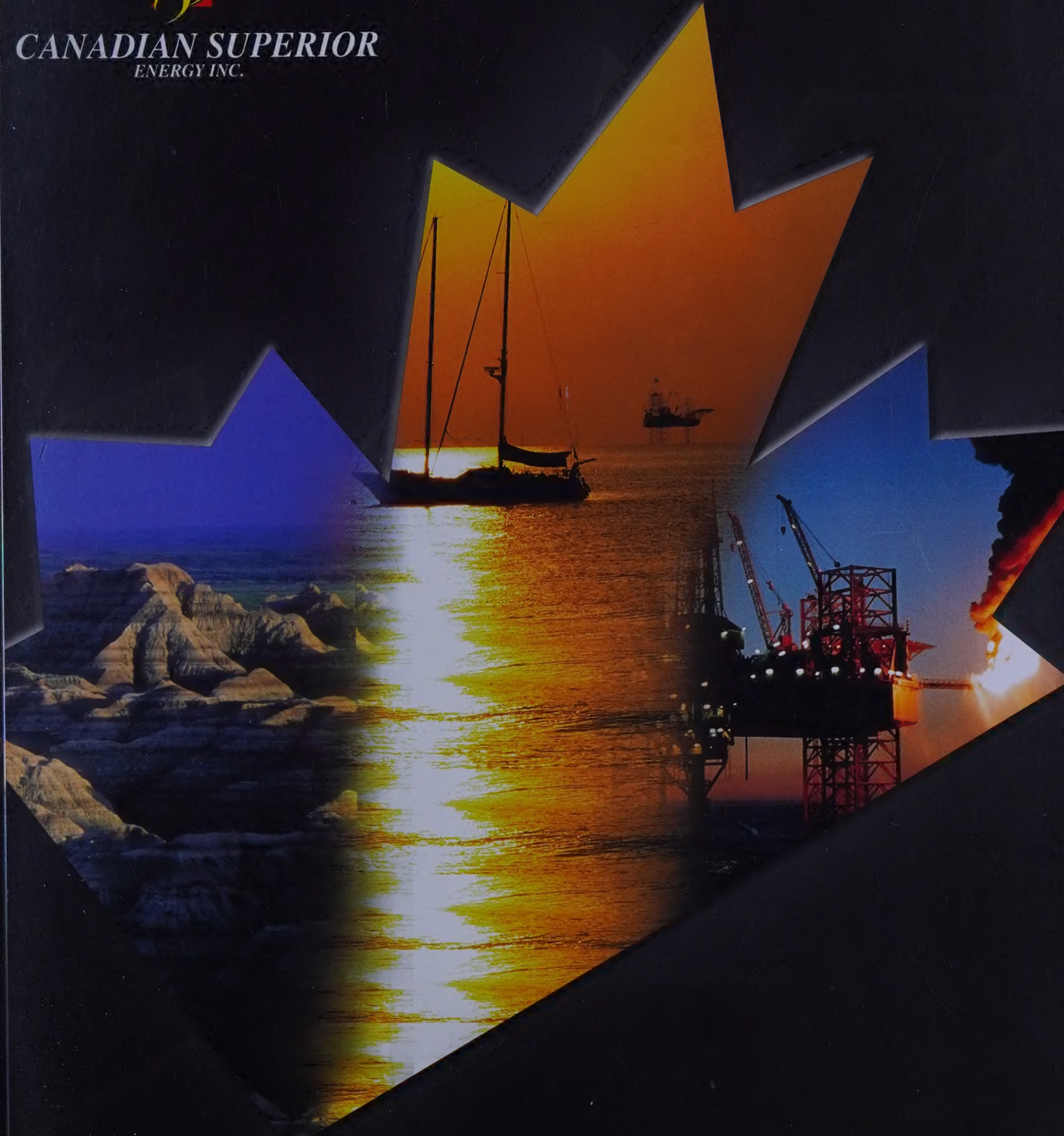
CANADIAN SUPERIOR
ENERGY INC.



2004 ANNUAL REPORT

FORWARD LOOKING STATEMENTS

This document contains forward-looking information on future production, project start-ups and future capital spending. Actual results or estimated results could differ materially due to changes in project schedules, operating performance, demand for oil and gas, commercial negotiations or other technical and economic factors or revisions.

Statements contained in this document relating to future results, events and expectations are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such statements. Such factors include, among others, those described in the Corporation's annual report on Form 40-F on file with the U.S. Securities and Exchange Commission.

CORPORATE PROFILE

Canadian Superior Energy Inc. is a Calgary, Alberta based energy company engaged in the exploration and production of oil and natural gas with operations in Western Canada, Offshore Nova Scotia and Offshore Trinidad and Tobago. The Corporation plans to increase Western Canadian reserves, cash flow and production by focusing its efforts on the Drumheller area of central Alberta and several high impact plays in Western Canada. These activities will complement the high impact opportunities the Corporation intends to continue to pursue off the East Coast of Canada offshore Nova Scotia, where it is the public company holding the largest exploration land position, and in Trinidad and Tobago, where it also has a large strategic offshore acreage position off the East Coast of Trinidad. The Corporation's strategy is to increase the value of its corporate assets through the drill bit, by strategic acquisitions, and by maintaining high interest and attempting to keep a strong balance sheet, while aggressively developing its newly acquired Trinidad interests and its offshore Nova Scotia assets.

The common shares of Canadian superior trade on the Toronto Stock Exchange and the American Stock exchange under the symbol "SNG".

ABBREVIATIONS

mbbls .... thousands of barrels
mmcf.......... million cubic feet
mmcf/d ...... million cubic feet per day
NGLs........... natural gas liquids, consisting of any one or more propane, butane or condensate.
bcf............ billion cubic feet
boe........... barrels of oil equivalent
boe/d......... barrels of oil equivalent per day
bbls .... barrels
bbls/d .... barrels per day

CONVERSION

All calculations converting natural gas to crude oil equivalent have been made using a ratio of six mcf of natural gas to one barrel of crude oil equivalent.

CONTENTS

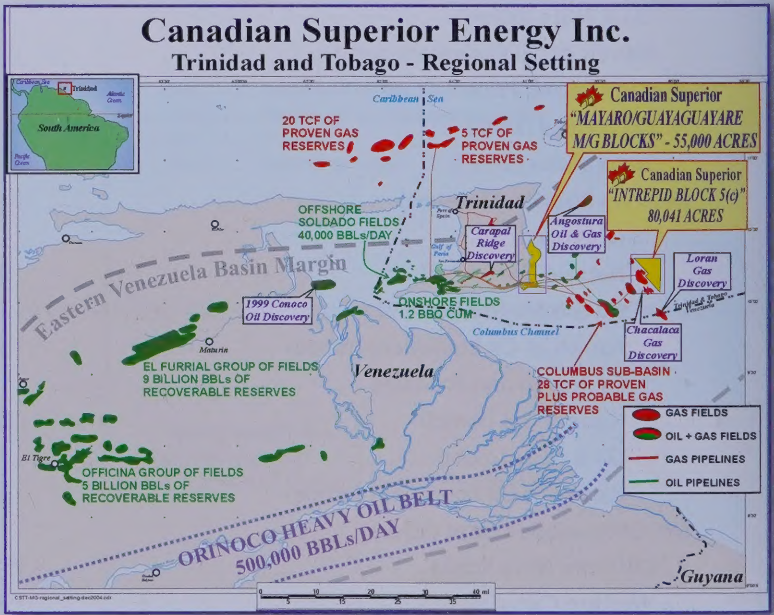
Cover: Left to right, represents Drumheller and Western Canada, offshore Trinidad and offshore Nova Scotia.

December 31	2004	2003	% Change
Financial ($000's except per share amounts)			
Gross Production Revenue	**$38,684**	$31,618	22%
Cash Flow from Operations	**$20,242**	$13,347	52%
Per Share	**$0.19**	$0.16	19%
Net Earnings (loss)	**$(3,024)**	$(952)	-
Per Share	**$(0.03)**	$(0.01)	-
Capital Expenditures	**$42,221**	$83,995	-50%
Nova Scotia Offshore Term Deposits	**$14,169**	$13,839	2%
Net Debt	**$13,380**	$3,744	257%
Shares Outstanding at Year-End	**109,807**	96,101	14%
Operating			
Average Production			
Natural Gas (mcf/d)	**11,533**	10,210	13%
Oil & NGLs (bbls/d)	**642**	583	10%
Barrels of Oil Equivalent per day	**2,565**	2,285	12%
Average Selling Price			
Oil & NGLs ($/bbl)	**$42.91**	$33.03	30%
Natural Gas ($/mcf)	**$6.80**	$6.60	3%
Reserves (Working Interest)			
Total Proved			
Natural Gas (mmcf)	**20,408**	17,477	17%
Oil & NGLs (mbbl)	**957**	1,218	-21%
Barrels of Oil Equivalent (mboe)	**4,358**	4,131	5%
Total Proved and Probable			
Natural Gas (mmcf)	**28,575**	24,690	16%
Oil & NGLs (mbbl)	**1,808**	2,044	-12%
Barrels of Oil Equivalent (mboe)	**6,570**	6,159	7%
Net Undeveloped Land (acres)			
Offshore Nova Scotia	**1,293,946**	1,293,946	0
Western Canada	**151,154**	147,533	2%
Wells Drilled			
Gross	**38.0**	17.0	124%
Net	**24.8**	15.1	64%

It is a pleasure to present to you the operating results of Canadian Superior Energy Inc. for the year ending December 31, 2004. During 2004, our management and professional staff have worked very hard to deliver shareholders a growth strategy based on our continued development of Western Canadian cash flow and production focusing on our Drumheller core producing area and several high impact opportunities we have in Western Canada, not to mention our recent success with our Coal Bed Methane ("CBM") production. This has been combined with "High Impact" opportunities Offshore Nova Scotia where we now hold the largest exploration acreage position of any public company and our "World-Class" holdings offshore Trinidad where a minimum of 5 wells are planned for drilling during the next 12 to 36 months. We are well positioned for sustained growth through 2005 and beyond. At the same time, we have applied, and continue to apply, sound business principles in prudently managing our balance sheet in order to be well positioned to pursue our exciting offshore Nova Scotia and Trinidad Projects, which provide "home run" opportunities for shareholders, as we continue to grow our core business in Western Canada.

Highlights of 2004 include:

- Revenues of $38.7 million, up 22 % compared to 2003.
- Cash flow from operations of $20.2 million, up 52% compared to 2003.
- Recorded average production of 2,565 boe/d, up 12% compared to 2003.
- Proved Reserves of 4,358 mboe, up 5 % compared to 2003.
- Proved Reserves valuation up $13.4 million.
- Proved plus Probable Reserves of 6,570 mboe, up 7% compared to 2003.
- Proved plus Probable Reserves valuation up $19.2 million.
- Completed drilling our second Offshore Nova Scotia exploration well, Canadian Superior's "Mariner" I-85 well, in March 2004.
- Acquired El Paso's Offshore Nova Scotia exploration and production assets in September 2004.
- In May 2004, successfully awarded, our "Intrepid" Block, Block 5(c) by the Trinidad and Tobago Ministry of Energy and Energy Industries in the historic 2003/2004 Competitive Bid Round.
- In addition, during the year Canadian Superior was actively involved and dedicated to community development; education, training and oil and gas research and development in Nova Scotia; cancer research in Alberta; and major sponsorship of various projects including the Western Canadian 4H on Parade, one of the largest farm shows in Canada, and the Calgary Stampede. We are also pleased to announce the recent establishment of the Canadian Superior Energy Canada - Trinidad and Tobago Charitable Foundation to undertake various additional programs including the promotion of educational training, as well as research and development activities, for students enrolled in undergraduate educational studies in Trinidad and Tobago.

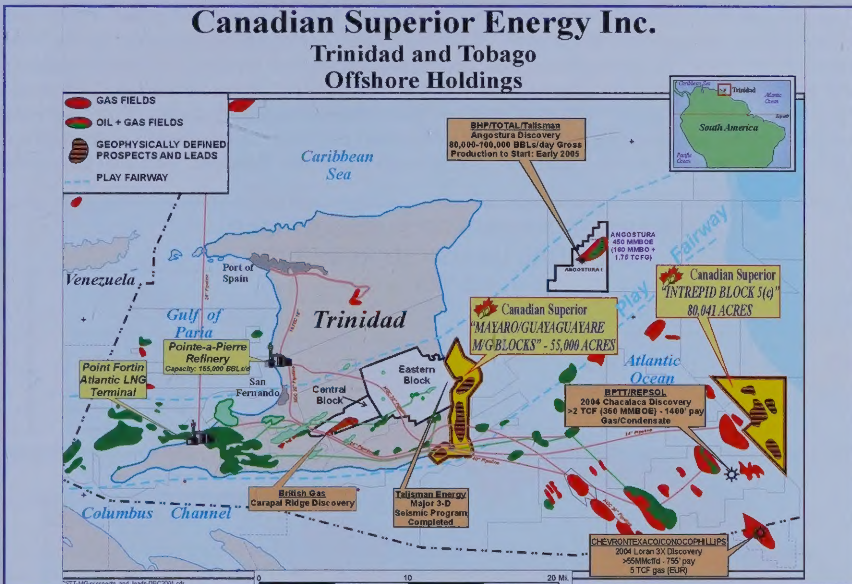


Note: Expanded versions of 2004 Annual Report maps may be viewed on www.cansup.com

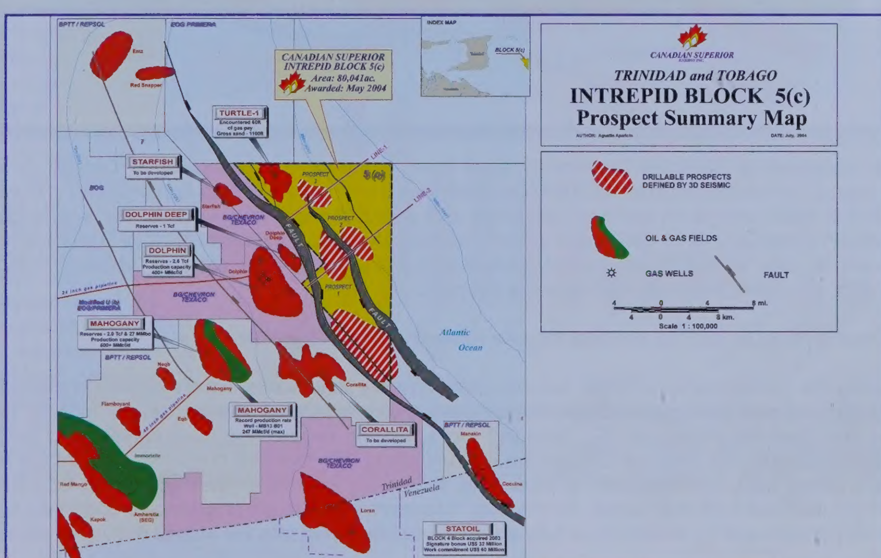
TRINIDAD AND TOBAGO

In 2004, we continued to make steady progress in preparing for exploration and development on our offshore Trinidad and Tobago holdings. Trinidad is one of the most coveted oil and gas basins in the world today and we were honored to be awarded the right to explore on Block 5(c) in the Government of Trinidad and Tobago Ministry of Energy and Energy Industries' 2003/2004 Offshore Competitive Bid Round in May 2004. We have named this our "Intrepid" Block. "Intrepid" was the code name of a famous Canadian spy during World War II, and some historians have argued he was one of the most important factors in the Allies winning the war. The famous Canadian spy's name was William Stephenson. The name "Intrepid" in Webster's Dictionary is defined as "outstandingly courageous" or "fearless". We feel the name is very appropriate given the challenges we face daily in the oil and gas business, and given the challenges we have successfully faced and overcome during the past year. The "Intrepid" Block 5(c) covers 80,041 gross acres and has significant natural gas exploration and development potential offsetting the large Dolphin gas field operated by British Gas. We have recently received the detailed 3D seismic data over the "Intrepid" Block from the Government of Trinidad and Tobago and are interpreting that data to confirm several drilling locations. Based on detailed seismic, a number of large structural gas prospects have been identified on the "Intrepid" Block with multi-tcf potential. We have signed the Production Sharing Contract, and as per Trinidad and Tobago Government protocol, it is to be executed by the Prime Minister in due course. In anticipation of finalizing the Production Sharing Contract, we are working hard on the front-end activities required to prepare for drilling on "Intrepid". Accordingly, we are excited about the "Intrepid" Block, and if all goes as planned, we expect to be drilling the first well of a multi-well drilling program planned for this project, subject to Government and regulatory approval, later in 2005 on this block, off the east coast of Trinidad.

Also in 2004, in Trinidad and Tobago, we continued to lay the groundwork for commencement of the first phase of operations on our Mayaro/Guayaguayare (M/G) "Tradewinds" project, including the reprocessing of existing seismic data we have in hand and planning for the commencement of 3D seismic shooting and acquisition operations in 2005/2006, to be followed by drilling operations thereafter. Our "Tradewinds" project is an excellent oil project opportunity and we are very pleased to have this joint venture with the national oil company, the Petroleum Company of Trinidad and Tobago Limited ("Petrotrin"). This joint venture encompasses two near-shore Blocks (55,000 gross acres) off the east coast of Trinidad where we have the potential to establish significant oil reserves in the heart of a known producing hydrocarbons-bearing structural trend.



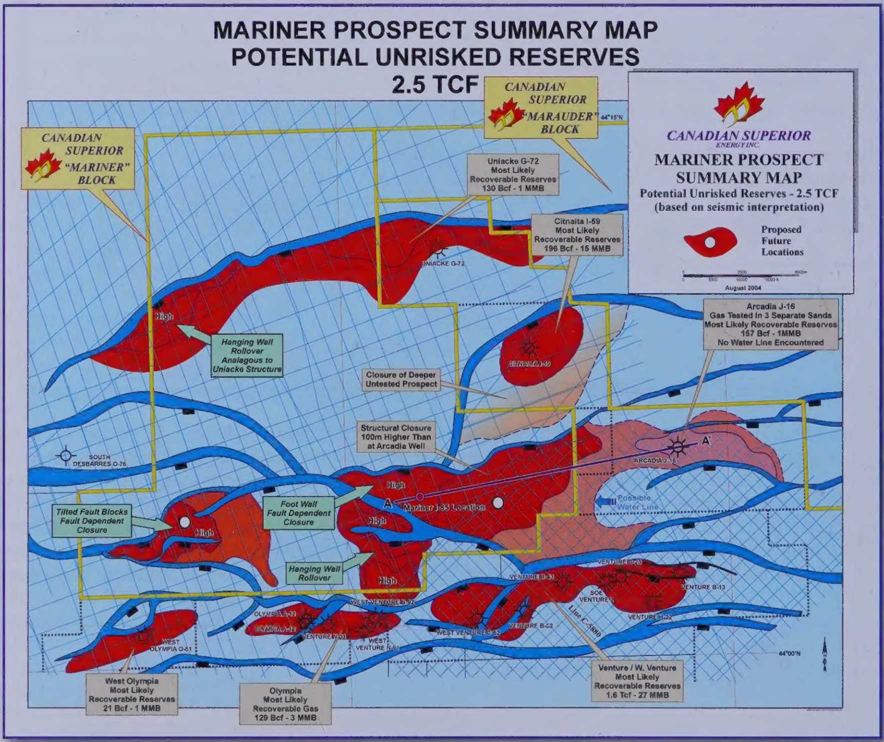
We see offshore Trinidad as a great exploration and development fit for Canadian Superior. Offshore Trinidad is a "World-Class" basin with multiple large exploration and development opportunities as evidenced by recent drilling successes in the Columbus Basin, as well as having well developed, and developing LNG facilities and capacity, and ready access to international markets. 80% of North America's LNG is supplied from Trinidad and some of the largest producing wells in the world are located in Trinidad close to our acreage. For example, 15 of the top 25 British Petroleum (BP) producing wells world-wide are located in Trinidad. When you align this with the stable fiscal and legal regime that is present in Trinidad and Tobago, you have a fair win-win situation for all those involved; and, the Government and people are very knowledgeable and supportive of the oil and gas industry and aggressive explorers like Canadian Superior.



As a result of the "Intrepid" Block 5(c) acquisition and our Mayaro/Guayaguayare (M/G) "Tradewinds" Joint Venture, Canadian Superior plans to drill at least five new offshore wells over the next 12 to 36 months off the east coast of Trinidad.

OFFSHORE NOVA SCOTIA, CANADA

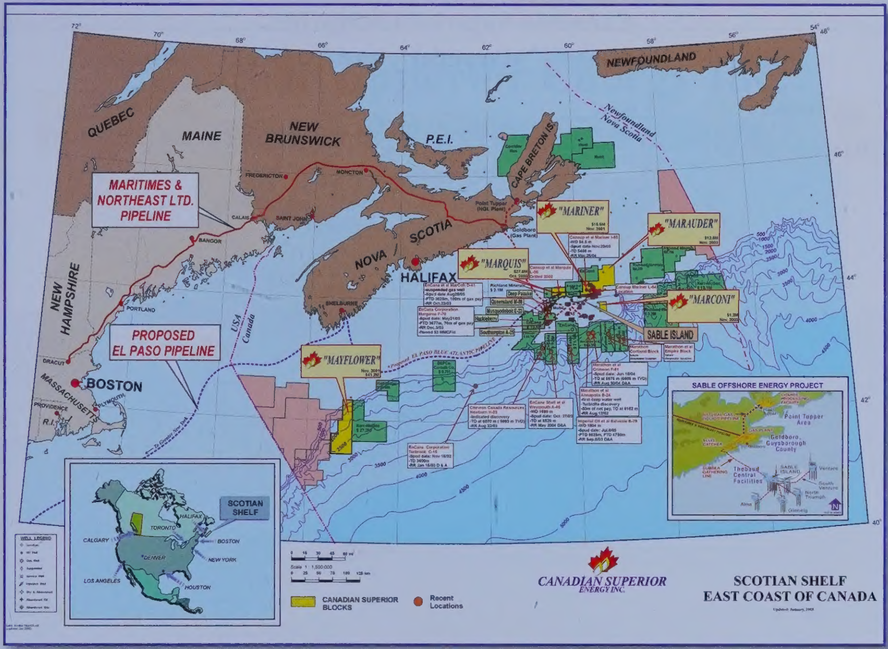
Also, as will be highlighted further in this report, 2004 has been a busy year for us off the East Coast of Canada. We and our former joint venture partner El Paso Oil and Gas Canada, Inc. drilled the "Mariner" I- 85 exploration well. In the third Quarter, we released the results of an independent petrophysical evaluation of the "Mariner" I-85 exploration well completed by Al Lye & Associates, Inc. of Calgary, Alberta to analyze the well for hydrocarbon potential. Mr. Lye is a well known recognized expert in the field of well log analysis, evaluation and interpretation. In his independent assessment, 24.6 m (80.7 feet) of Net Pay was assigned to the "Mariner" I-85 well from his well log analysis. Further, in the report, it is stated that 4 (four) zones warranted flow testing in the well "based on the gas indications, calculated saturation and porosity values, and the pressure potential at the depth of these formations". Reserve Estimates were also addressed in the report. Although the "Mariner" I-85 well was not flow tested, the report states, "Potential reserve estimations can be generated based on well log data, and maps based on seismic interpretation" and has resulted in potential recoverable gas reserve estimates between 211 bcf and 632 bcf on this one "Mariner" structure on which the "Mariner" I-85 well was drilled and evaluated.



Further drilling is planned by Canadian Superior Offshore Nova Scotia off the East Coast of Canada. To better position the Corporation in this regard, in the third quarter of 2004, Canadian Superior acquired El Paso Corporation's ("El Paso") offshore Nova Scotia assets as part of El Paso's overall oil and gas exploration and production exit from Canada. The acquisition included El Paso's interests in the "Marquis" Blocks (EL 2401 & 2402), and in the "Mariner" Block (EL 2409) offshore Nova Scotia and in the "Mariner" I-85 well, all of El Paso's seismic data, all shared geophysical, geotechnical and environmental data, all "Marquis" L-35/L-35A well data, all "Mariner" I-85 well data, all related inventory and extensive tax pools.

This acquisition now provides us with the flexibility to move forward unimpeded in Nova Scotia.

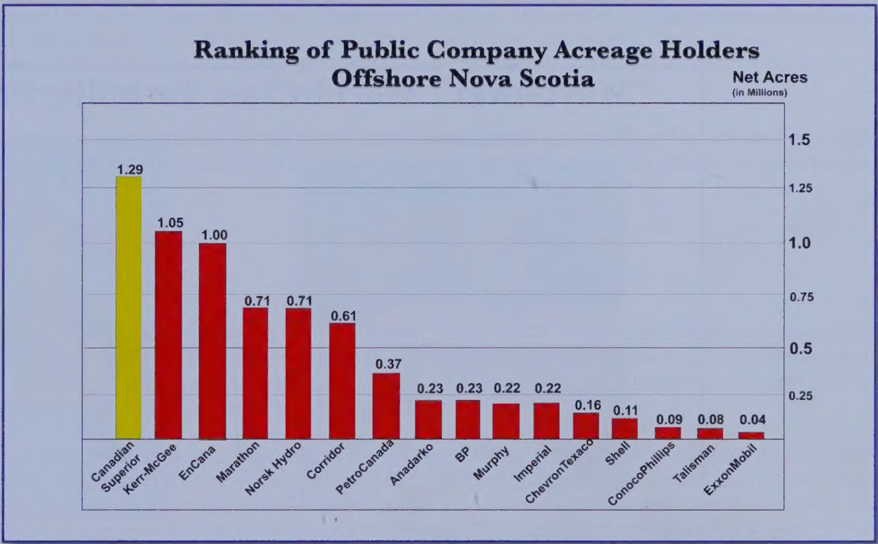
Accordingly, during the fourth quarter of 2004, and into 2005, offshore Nova Scotia, we are actively preparing for further drilling on "Mariner". Based on front end geological and geophysical analysis completed over the past several months, two new prospective locations have been identified for drilling on our "Mariner" block. Drilling engineering, procurement and permitting activities to progress this additional drilling on our "Mariner" Project are well underway. The two new proposed locations can be seen on our maps in this report. Wellsite survey work was completed at these sites, as was the securing of the most critical long lead item for the well by purchasing the 10 3/4 inch and 9 7/8 inch casing, for the next "Mariner" well. We are preparing to undertake further drilling, upon finalizing joint venture partners and rig availability is fully assessed and integrated into the overall drilling schedule.

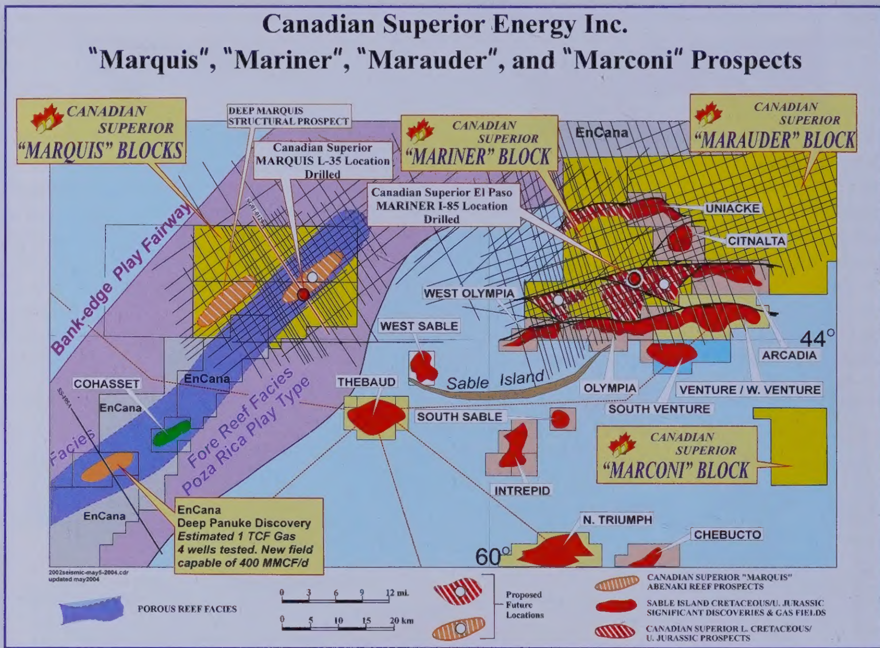


OTHER EAST COAST CANADA, OFFSHORE NOVA SCOTIA HOLDINGS

Canadian Superior has emerged as the public company with the largest exploration acreage holdings offshore Nova Scotia with 100% interests in six exploration licences totaling 1,293,946 acres; and, we are one of the few operators involved in the three main play types in the basin.

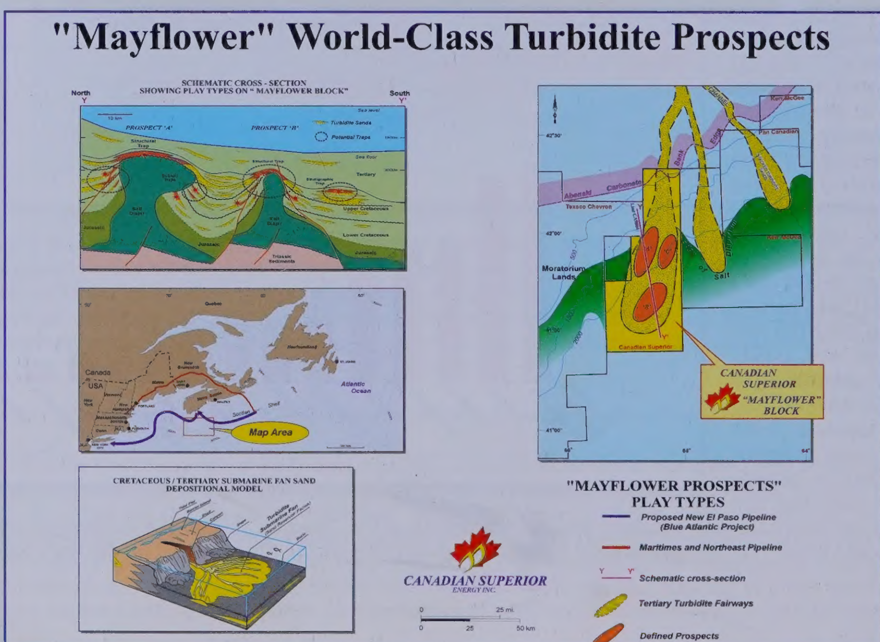
In addition to Canadian Superior's "Mariner" exploration project targeting Cretaceous and Jurassic gas bearing sands, we continue to work on our Abenaki Reef "Marquis" project and our "Mayflower" deepwater project. Our "Marquis Project" lands encompass two exploration licences with approximately 112,000 contiguous acres located in shallow water depths close to the existing Sable Offshore Energy Project producing infrastructure. The "Marquis Project" lands are located approximately 20 kilometres (12 miles) northwest of Sable Island and approximately 25 kilometres (16 miles) northeast of EnCana's Deep Panuke Abenaki reef natural gas discovery. During 2002 the first "Marquis" exploration well, L-35/L-35A, was drilled and confirmed the presence of a porous Abenaki reef reservoir in three separate zones within the Abenaki reef complex. Additional seismic data to provide detailed geophysical data that can now be tied to measured well bore data obtained through the drilling of the "Marquis" L-35/L-35A exploration well will be obtained in due course and should allow us to identify optimal future drilling locations on the Abenaki Reef up-dip from our 2002 "Marquis" L-35/L-35A well.

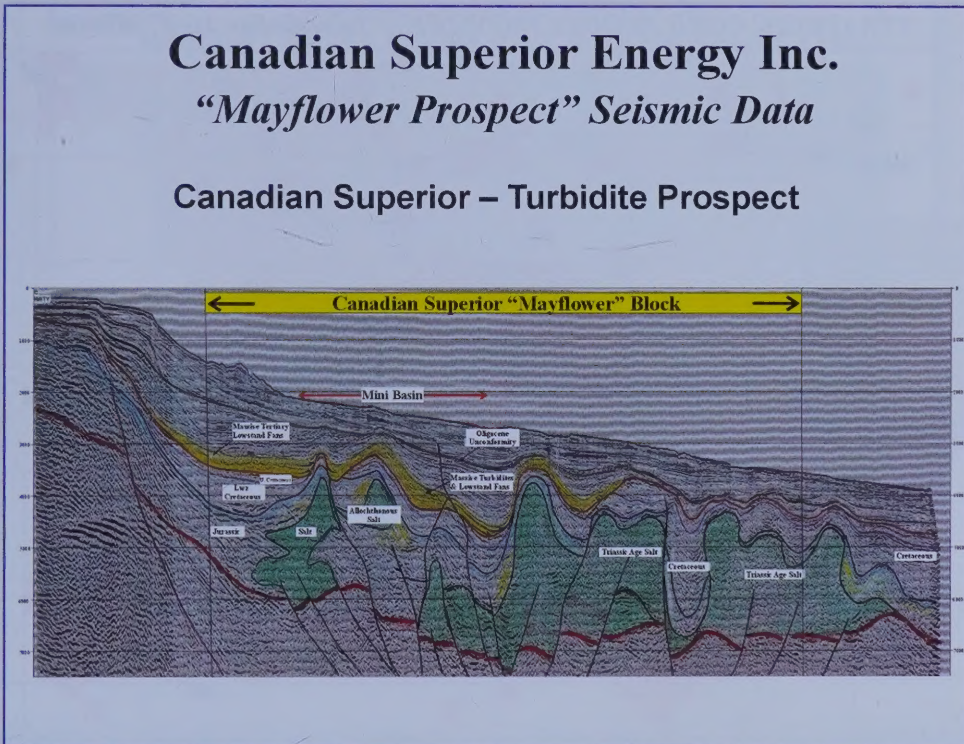




Canadian Superior's "Mariner", "Marauder", "Marconi" and "Marquis" Prospects comprise approximately 584,000 acres and are located in close proximity to Sable Island and the producing and non-producing ExxonMobil fields in the area.

Canadian Superior's "Mayflower" deepwater project exploration licence covers approximately 710,000 acres and is located approximately 460 kilometres (285 miles) east of Boston. Mapping to date indicates the presence of five sizeable deepwater prospects within the "Mayflower" block. These large prospects are structural and are typically formed by mobile salt tectonics. Prospect sizes range from 50 to 200 square kilometers (19 to 77 square miles) in size and are located in 1,300 to 2,500 metre (4,265 – 8,200 feet) water depths. We currently plan to proceed with a high resolution seismic program over the "Mayflower" block to further define targeted structures to enable future drilling.





We also have several other exciting Cretaceous and Jurassic prospects acquired in November 2003 on our new "Marauder" and "Marconi" exploration lands covering 370,881 additional acres offshore Nova Scotia. These exploration licences were targeted for acquisition based on analysis of recently shot proprietary seismic data and in-house geological evaluations. "Marauder", encompassing 312,037 acres, directly offsets three Significant Discovery Licences (Uniacke, Citnalta and Arcadia). "Marauder" has four seismically defined prospects, two of which lie on trend with and are related to the Uniacke and Citnalta significant discoveries. These provide Canadian Superior with additional attractive prospects in this proven area. "Marconi" (EL 2416), encompassing 58,844 (100% owned) acres, has a seismically defined tilted fault / anticlinal prospect similar to other Sable area fields such as Glenelg and Alma.

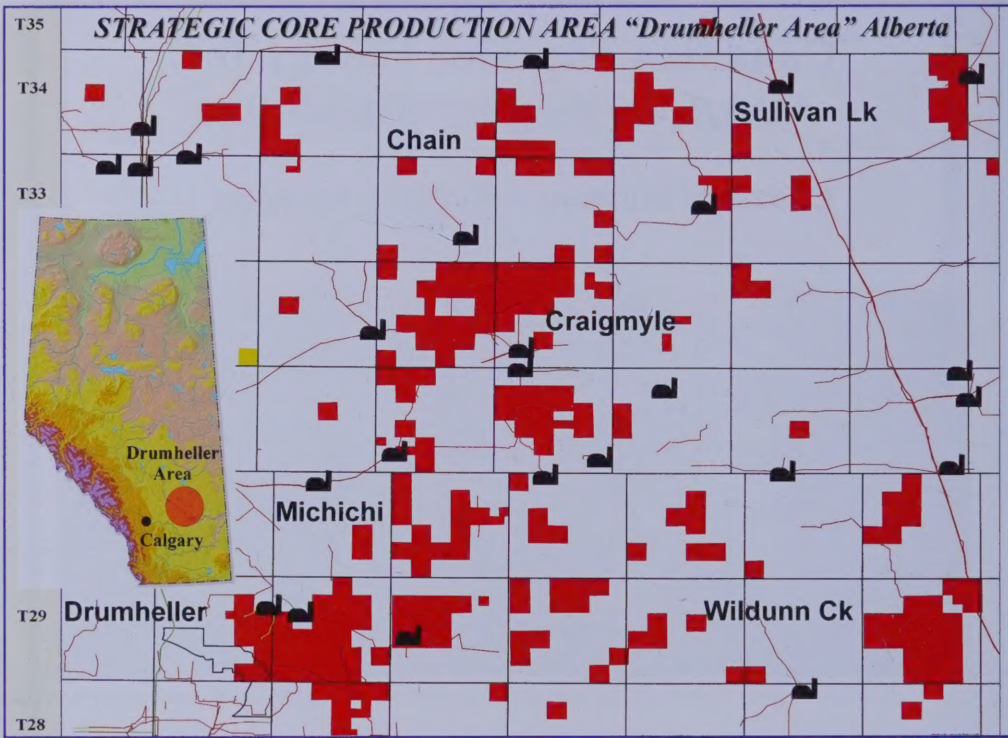
The Sable Island area gas supply is very important and strategic for the North Eastern United States gas supply, and we are confident that being the public company holding the largest exploration acreage position in this area (See Chart, Page 5) will be very rewarding for Canadian Superior and our shareholders.

WESTERN CANADA

Operations Summary

In addition to working hard on the "high impact" opportunities we have offshore Nova Scotia and in Trinidad and Tobago, during 2004, we have worked hard in Western Canada continuing to develop Western Canadian cash flow and production focusing on developing our Drumheller Alberta core area and several high impact drilling opportunities. Our Corporation acreage holdings in Drumheller continue to increase, and as of year end, Canadian Superior holds 181,995 gross acres in that area.

Drumheller is Canadian Superior's core producing area and it generates the majority of the Corporation's cash flow through the sale of oil and gas. We are pleased to report that 2004 was another successful year for the Corporation in Drumheller. During the year, Canadian Superior drilled or participated in 38 gross (24.8 net) wells in the Drumheller area with an overall success rate of over 90%. Of these 38 wells, 22 were operated and 16 were non-operated. The average working interest of the operated wells was 91.7% and for the non-operated wells, the average working interest was 28.9%. This supports Canadian Superior's strategy of controlling its own destiny by keeping control over its high interest wells and the timing for tie-in. Of the operated wells, 16 were successful oil or gas wells (15 are tied-in and producing, 1 is waiting on tie-in), 3 were suspended and 3 were D&A.



Of the 16 non-operated wells, 9 of which are CBM (Coal Bed Methane), all were successful, three are tied-in and producing and 13 are waiting on final tie-in. As noted above, the Corporation participated in 10 CBM wells (1 operated) in 2004. These wells show initial average test rates of 150 mcf/d and this sets the stage for future activity in 2005 and beyond. We intend to use this encouraging 2004 program as a staging ground for future development of the extensive CBM potential that exists over our acreage base within the Drumheller area. Recent sales prices for Drumheller area lands with coal bed methane potential has exceeded $250,000 per section (approximately $390 per acre). We have approximately 108 net sections (69,120 acres) in the Drumheller area with potential for coal bed methane production.

Another very encouraging result was a 100% operated exploration well that was drilled by the Corporation in December of 2004. The well validated 5 sections of land and tested 2 mmcf/d gas from a Cretaceous exploratory target. Plans are to tie-in this well in early 2005 and follow up with more delineation drilling.

Another 12 to 14 operated locations are either surveyed or will be submitted for survey and drilling of these locations will commence in late winter or early spring of 2005, depending on spring break-up in the Drumheller area. The Corporation also shot or participated in two 2D seismic surveys and three 3D seismic surveys, the largest of the 3D's being 46 square kilometers and was completed in the late fall. Several locations will be drilled on these surveys in 2005. Other plans in the Drumheller area include some additional 3D seismic and a horizontal well in the Wildunn area.

Western Canadian High Impact Opportunities

Canadian Superior also holds operated high working interests in a number of other Alberta and British Columbia properties that are primarily in winter access areas. These other areas total an aggregate of 102,623 gross acres (83,686 net acres) in Alberta and 15,243 gross acres (11,766 net acres) in British Columbia. The main operated areas in Alberta are Windfall, Boundary Lake and Bison. In British Columbia, the main operated areas are Altares, Umbach and Parkland, all of which are considered to be potential high impact areas.

East Ladyfern

In March of 2004, Canadian Superior Energy Inc. shot a 62 square kilometer 3D seismic program in the East Ladyfern area to further evaluate the Slave Point potential demonstrated in the tested 7-2 well. The 3D indicated follow-up locations to the south and additional 2D seismic was shot. The 1-26-92-11W6 location was surveyed and prepared in late 2004 after freeze up. The well was spudded in late January of 2005 and it had been cased to the top of the Slave Point, but, due to early break-up the well was not completed. Plans are to go back into the area in late 2005 and test the well after freeze-up.

Canadian Superior drilling operations

Windfall/Pine Creek

Additional 2D seismic was shot in the Windfall area early in 2004 to evaluate several potential zones in the Cretaceous and the Jurassic. Two wells were planned and have been successfully drilled during the winter of 2004/2005. The first well, non-operated, was spudded in late December and was tested in early January. This well is currently being tied-in by the Operator. The second well, which was operated by Canadian Superior was spudded in February of 2005 and awaits a completion that is scheduled before break up in late March/ early April. Log results on this well look very encouraging and we look forward to completing and tieing-in this well.

In addition, the Corporation plans on entering one of its existing producing wells in this area and completing a highly perspective zone that is expected to further increase the area's production

Boundary Lake

The Boundary Lake area has seen new emphasis in Canadian Superior's exploration effort. Several test seismic lines have been reprocessed which has initiated a larger reprocessing project and a renewed interest in this area. Exploration efforts are still in the planning stages, but with the current land base of over 9000 net acres, the Corporation is looking to this area for future potential reserve adds.

British Columbia - Umbach, Altares, Parkland

Although Canadian Superior continues to be active in Altares and the Parkland area of NEBC, and the Venus, Botha and Chinchaga areas of Northern Alberta, these areas have been re-evaluated over the last two quarters of 2004 and the Corporation has at this time shifted its emphasis to the core areas in Alberta, Offshore Nova Scotia and Offshore Trinidad. Several pending deals are being considered in British Columbia and these will help shape the future of these areas.

Canadian Superior gas well testing operations

FINANCIAL HIGHLIGHTS

We are pleased to report that average daily production for 2004 increased to 2,565 boe/d, up 12 percent from 2,285 boe/d in 2003. The increase in production during 2004 is largely attributable to increased production in the Drumheller area.

Also, we are pleased to report that oil and gas revenue increased $7.1 million (22 percent) to $38.5 million in 2004, as compared to $31.6 million in 2003. This revenue increase is due to both higher production levels and higher average prices achieved during 2004. The average sales price in 2004 was $41.33/boe ($6.80/mcf for natural gas and $42.91/bbl for oil and NGLs) up 9 percent from $37.92/boe in 2003 ($6.60/mcf for natural gas and $33.03/bbl for oil and NGLs). Of the $7.1 million increase in oil and gas revenues recorded in 2004, $2.9 million of the increase is attributed to increased prices, while $4.2 million of the increase was created by increased production volumes for both oil and gas. Gas volumes increased 13% to 11,533 mcf per day in 2004, up from 10,210 mcf per day in 2003, while oil volumes increased 10% to 642 bbls per day in 2004, up from an average of 583 bbls per day produced in 2003.

Cash flow from operations also increased, up 52% to $20.2 million in 2004, from $13.3 million in 2003. Increased production and higher product prices received in 2004 are the primary contributor to the large cash flow increase.

Increased depletion (a non-cash item) resulted in the Corporation recording a net loss of $3.0 million, or $(0.03) per share, for 2004, as compared to a loss of $1.0 million $(0.01) per share, in 2003. The principal reason for this accounting loss in 2004 was the increased depletion expense of $22.2 million compared to $14.3 million in 2003.

RESERVES SUMMARY

We are pleased to provide the Corporation's December 31, 2004 Reserves and Values from Gilbert Lausten Jung Associates Ltd. evaluation of the Corporation's Western Canadian properties, effective December 31, 2004. As noted earlier in the Corporation's 2004 Highlights, we are pleased to report Proved Reserves of 4,358 mboe, up 5% compared to 2003; Proved Reserves valuation up $13.4 million; Proved Plus Probable Reserves of 6,570, up 7% compared to 2003; and, Proved Plus Probable Reserves valuation up $19.2 million.

	Oil (MSTB)	Gas (MMCF)	NGL (MBBLS)	MBOE (6:1)
Proved Producing	768	17,043	167	3,776
Proved Developed Non-producing	0	2,340	18	408
Proved Undeveloped	0	1,025	3	174
Total Proved	768	20,408	189	4,358
Total Proved Plus Probable	1,531	28,575	277	6,570

Value of Reserves (10% discounted cash flow, $000's)	2005
Total Proved and Probable	89,219
Total Proved	68,572

Reserves refers to the total working interest share of remaining recoverable reserves owned by Canadian Superior before deduction of royalties payable to others.

Price forecast, Gilbert Lausten Jung Associates Ltd., effective January 1, 2005 pricing.

	WTI (1) ($US/STB)	Oil Price (2) ($Cdn/STB)	AECO Spot Gas (3) ($/MMBTU)	NGL Propane ($/BBL)	NGL Butane ($BBL)	NGL Pentanes ($BBL)
Current Year Forecast						
2005	42.00	50.25	6.60	32.25	37.25	50.75
Future Forecast						
2006	40.00	47.75	6.35	30.50	35.25	48.25
2007	38.00	45.50	6.15	29.00	33.75	46.00
2008	36.00	43.25	6.00	27.75	32.00	43.75
2009	34.00	40.75	6.00	26.00	30.25	41.25

(1) West Texas Intermediate Crude Oil at Cushing, Oklahoma.
(2) Equivalent price for Light Sweet Crude (40 API/0.3% S) landed in Edmonton, Alberta
(3) Price paid at AECO delivery point.

LAND INVENTORY

Our undeveloped land acreage in Western Canada at the end of 2004 was approximately 170,978 gross acres (145,846 net acres) with an average working interest of 85%. We intend to actively add to our large undeveloped land holdings, with a particular focus on the Drumheller area.

Canadian Superior is the public company holding the largest exploration land position offshore Nova Scotia, where Canadian Superior currently holds 100% working interests in six licences covering an aggregate of 1,293,946 acres.

In Trinidad and Tobago, Canadian Superior's Mayaro/Guayaguayare (M/G) "Tradewinds" joint venture lands cover 55,000 gross acres and our "Intrepid" Block 5(c), awarded in the second quarter 2004, added an additional 80,041 gross acres. Total acreage is now 135,041 gross acres, resulting in Canadian Superior becoming one of the largest strategic landholders in Trinidad and Tobago once our licences are fully approved by the Government of Trinidad and Tobago, which we expect in the very near future.

ENVIRONMENTAL RESPONSIBILITY

Canadian Superior conducts its operations in Canada in a manner consistent with environmental regulations as stipulated in provincial and federal legislation. The Corporation is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making expenditures of both a capital and expense nature to ensure full compliance with laws relating to protection of the environment. The Corporation anticipates spending sufficient funds on environmental expenditures in 2005 in order to comply in all material respects with all environmental requirements related to its field operations. The Corporation does not anticipate that such expenditures, as a percentage of cash flow, will be greater than those expected, on average, by other industry operators. The Corporation will maintain insurance coverage where available, and financially desirable, in light of risk versus cost factors.

CORPORATE RESPONSIBILITY AND COMMUNITY INVOLVEMENT

Canadian Superior is a strong advocate of direct corporate involvement in communities contributing to, or affected by, its activities. We believe that direct community involvement enhances our ability to properly achieve common goals. Significant efforts are exerted to ensure that we have a responsible and responsive corporate presence. We conduct regular discussions with community representatives and stakeholders and we take care to ensure that planned activities are fully explained. Our attitude of direct involvement with local communities is consistently supported by sponsorship of community programs.

In Western Canada, Canadian Superior has been a sponsor of urban and rural communities, charitable organizations and sponsorships including cancer research in Alberta, the Calgary Chinook Scout Foundation, the Rockyview General Hospital, STARS and the Alberta Cancer Foundation. The Corporation is also a major sponsor of the Calgary Stampede and 4H on Parade, the latter being one of the largest rural youth agricultural shows in North America. We intend to actively continue with support for community and charitable programs and initiatives and we encourage our staff and management to do the same.

In Nova Scotia, Canadian Superior's contributions have included supporting education and training, as well as to oil and gas related research and development activities, for students enrolled in undergraduate education programs in Nova Scotia. We have provided Education, Training, and Research and Development funds to Dalhousie University, St. Francis Xavier University, the University College of Cape Breton and the Nova Scotia Community College.

In Trinidad and Tobago, Canadian Superior considers it important to promote the development of people by imparting to Trinidad and Tobago nationals technology and business expertise in all areas of energy sector activity, and is committed to a number of programs which are associated with the provisions of the proposed Production Sharing Contract between the Government of Trinidad and Tobago and the Ministry of Energy and Energy Industries and Canadian Superior regarding Block 5(c). In addition, and separate from those programs, and also in recognition of our Mayaro/Guayguayare (M/G) Joint Venture with Petrotrin, Canadian Superior has recently established the Canadian Superior Energy Canada - Trinidad and Tobago Charitable Foundation to undertake various additional programs including the promotion of educational training, as well as research and development activities, for students enrolled in undergraduate educational studies in Trinidad and Tobago. This program is modeled after our very successful Nova Scotia program supporting undergraduate education, training and research and development, as briefly outlined above.

In summary, we look forward to continuing to actively support programs related to the communities and stakeholders that support our corporate objectives and growth strategies.

OUTLOOK – 2005 and Longer Term

Our strategic Corporate Objectives for sustainable growth are unwavering and remain:

- To continue to grow Western Canadian cash flow and production, focusing on the Drumheller area and high impact Western Canadian plays.
- To maintain high interest operational positions and a strong balance sheet.
- To continue forward with drilling and development of the Corporation's Offshore Nova Scotia and Offshore Trinidad and Tobago assets.
- To continue to focus on increasing the underlying value for shareholders through strategic drilling, development and acquisitions.

We expect the next several months will be very exciting for Canadian Superior and our shareholders. We thank you for your support during the past year and with the continued support of our shareholders and the exciting assets we have developed that underpin Canadian Superior, we are very confident that 2005 and the years ahead will be very rewarding. We intend to continue to strive to prudently manage our balance sheet while we remain focused on growth and achievement. We are confident that our continued hard work, along with your support, will result in continued success for our Company.

Respectfully submitted on behalf of Canadian Superior Energy Inc.

CANADIAN SUPERIOR ENERGY INC.

per

Greg S. Noval
Chief Executive Officer
March 31, 2005

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements and Auditors' Report included in this Annual Report. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada. The following discussion and analysis refers primarily to 2004 compared with 2003 unless otherwise indicated. The calculation of barrels of oil equivalent ("boe") is based on a conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Management's Discussion and Analysis contains the term "cash flow from operations", which is determined before changes in non-cash working capital and should not be considered an alternative to, or more meaningful than, "cash flow from operating activities" as determined in accordance with generally accepted accounting principles ("GAAP"). Canadian Superior's determination of cash flow from operations may not be comparable to that reported by other corporations. A reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows in the audited financial statements. The Corporation also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding in a manner consistent with the calculation of earnings per share.

The MD&A as well as other sections within this Annual Report, contain forward-looking or outlook information regarding the Corporation. Because forward-looking information addresses future events and conditions, it involves risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking or outlook information. These risks and uncertainties include, but are not limited to: commodity price levels; production levels; the recoverability of reserves; transportation availability and costs; operating and other costs; interest rates and currency exchanges rates; and changes in environmental and other legislation and regulations.

NET INCOME AND CASH FLOW FROM OPERATIONS

	($000's)			($ per boe)		
Years ended December 31	**2004**	2003	% change	**2004**	2003	% change
Revenue	**$ 38,684**	$ 31,618	22	**$ 41.33**	$ 37.92	9
Royalties, net of ARTC	**5,805**	6,050	(4)	**6.20**	7.26	(15)
Production and operating expenses	**7,151**	5,992	19	**7.64**	7.19	6
Operating Netback	**25,728**	19,576	31	**27.49**	23.47	17
General and administrative expenses	**4,614**	4,849	(5)	**4.93**	5.82	(15)
Net interest expense (income)	**611**	1,092	44	**.65**	1.31	(50)
Large Corporations Tax	**261**	288	(9)	**.28**	0.34	(18)
Cash Flow from Operations	**20,242**	13,347	52	**21.62**	16.00	35
Depletion and amortization	**22,177**	14,291	55	**23.65**	17.14	38
Future income tax recovery	**(1,523)**	(763)	97	**(1.61)**	(0.90)	79
Stock compensation expense	**2,612**	771	239	**2.79**	0.90	210
Net Loss	**$ (3,024)**	$ (952)	215	**$ (3.20)**	$ (1.14)	180

The Corporation recorded a net loss of $3.0 million, or $(0.03) per share, for 2004, as compared to a loss of $1.0 million $(0.01) per share, in 2003. The principal reason for the loss in 2004 was the increased depletion expense of $22.2 million compared to 14.3 million in 2003 resulting from the inclusion of the Mariner I-85 drilling costs in the depletable pool in 2004.

Cash flow from operations increased 52% to $20.2 million in 2004, from $13.3 million in 2003. Increased production and higher product prices received in 2004 were the primary contributor to the large cash flow increase.

PRODUCTION, PRICING AND REVENUE

Years ended December 31	**2004**	2003	% change
Natural Gas			
Average Daily Production (mcf/d)	**11,533**	10,210	13
Average Sales Price ($/mcf)	**$ 6.80**	$ 6.60	3
Natural Gas Revenue ($000's)	**$ 28,623**	$ 24,589	16
Oil & NGLs			
Average Daily Production (bbl/d)	**642**	583	10
Average Sales Price ($/bbl)	**$ 42.91**	$ 33.03	30
Oil & NGLs Revenue ($000's)	**$ 10,060**	$ 7,029	43
Barrels of Oil Equivalent (6:1)			
Average Daily Production (boe/d)	**2,565**	2,285	12
Average Sales Price ($/boe)	**$ 41.33**	$ 37.92	9
Total Oil & Gas Revenue ($000's)	**$ 38,684**	$ 31,618	22

Average daily production for 2004 increased to 2,565 boe/d, up 12 percent from 2,285 boe/d in 2003. The increase in production during 2004 is largely attributable to increased production in the Drumheller area.

Oil and gas revenue increased $7.1 million (22 percent) to $38.5 million in 2004, as compared to $31.6 million in 2003. This revenue increase is due to both higher production levels and higher average prices achieved during 2004. The average sales price in 2004 was $41.33/boe ($6.80/mcf for natural gas and $42.91/bbl for oil and NGLs) up 9 percent from $37.92/boe in 2003 ($6.60/mcf for natural gas and $33.03/bbl for oil and NGLs). Of the $7.1 million increase in oil and gas revenues recorded in 2004, $2.9 million of the increase is attributed to increased prices, while $4.2 million of the increase was created by increased production volumes for both oil and gas. Gas volumes increased 13% to 11,533 mcf per day in 2004, up from 10,210 mcf per day in 2003, while oil volumes increased 10% to 642 bbls per day in 2004, up from an average of 583 bbls per day produced in 2003.

While the Corporation sells all its production within Canada, and receives its production payments in Canadian dollars, the Canadian dollar prices for oil, NGLs and natural gas are strongly referenced to US commodity prices. During 2004, the Canadian dollar increased approximately 8 percent versus the US dollar, resulting in the Corporation's realized Canadian dollar denominated sales prices showing lower increases than the US dollar reference prices.

HEDGING

The Corporation enters into commodity sales agreements and certain derivative financial instruments to reduce its exposure to commodity price volatility. These financial instruments are entered into solely for hedging purposes to protect the Corporation against negative commodity price movements and are not used for trading or other speculative purposes. These 2004 activities resulted in a loss of $496,000 which was recorded as a decrease in oil and gas revenues during the period.

The Corporation has the following contracts in place relating to 2005:

Contract	Volume	Price	Term
Natural Gas			
Fixed Price	1,000 gj/d	$9.37/gj (Aeco)	January 1 – March 31, 2005
Costless Collar	1,000 gj/d	$7.00 to $13.50/gj (Aeco)	January 1 – March 31, 2005
Crude Oil			
Fixed Price	100 bbls/d	$44.25 USD/bbl WTI	January 1 – March 31, 2005

At December 31, 2004, the estimated fair value of the above financial instruments was a gain of $358,000.

ROYALTIES

Royalties, net of the Alberta Royalty Tax Credit of $500,000, totaled $5.8 million in 2004, down 5 percent from $6.1 million recorded in 2003. The decrease in royalty expense is due to a $1.1 million royalty reduction recorded in 2004 relating to the 13th month adjustment to gas cost allowance for 2003 crown royalties. 2004 crown royalties of $5,871 were 15.1% of total revenues, compared to 2003 crown royalties (adjusted for GCA booked in 2004) of $4,076, or 12.9% of revenues. This increase in the percentage of total revenues in 2004 resulted from fewer low productivity wells producing in 2004, offset by production from new wells that do not qualify for the low productivity reduced royalty rate.

Years ended December 31 ($000's)	2004	2003	% change
Crown	$ 5,871	$ 5,219	12
2003 GCA adjustment made in 2004	(1,143)	0	n/a
Freehold & overriding	1,577	1,248	26
Total royalties	6,305	6,467	(2)
Alberta Royalty Tax Credit	(500)	(417)	20
Net royalties	$ 5,805	$ 6,050	(4)
Per boe	$ 6.20	$ 7.26	(15)
Percent of total revenue	15%	19%	n/a

PRODUCTION AND OPERATING EXPENSES

Production and operating expenses increased to $7.2 million for 2004, up 19 percent from $6.0 million reported in 2003, resulting from a combination of increased production to 2,565 boe per day in 2004 compared to 2,285 boe per day in 2003, and increased costs caused by higher demands for products and services. On a boe basis, 2004 production and operating expenses increased to $7.64/boe, up 6 percent from $7.19/boe in 2003.

GENERAL AND ADMINISTRATIVE EXPENSES

Gross G&A charges remained steady at $9.4 million in 2004, from $9.2 million in 2003. G&A recoveries consisting of overhead recoveries on capital projects increased 45 percent to $379,000 in 2004 from $260,000 in 2003. Capitalized G&A consisting of the share of the company's general and administrative expenditures which relate to exploration activities increased 10 percent to $4.5 million in 2004, from $4.1 million recorded in 2003. Net G&A expenses of $4.6 million in 2004, is down 4 percent from $4.8 million in 2003.

On a unit of production basis, G&A expenses dropped 16 percent to $4.87 per boe for 2004 from $5.82 per boe recorded in 2003. This reduction is the result of maintaining stable general and administrative costs in an environment of increased production.

Years ended December 31 ($000's)	2004	2003	% change
Gross G&A Expenses	$ **9,438**	$ 9,172	3
Recoveries	**(379)**	(260)	(46)
Capitalized	**(4,472)**	(4,063)	10
Net G&A	$ **4,587**	$ 4,849	(6)
Per boe	$ **4.90**	$ 5.82	(16)

STOCK BASED COMPENSATION EXPENSE

In September 2003, the CICA issued an amendment to section 3870 "Stock based compensation and other stock based payments". The amended section is effective for fiscal years beginning on or after January 1, 2004. The amendment requires that companies measure all stock based payments using the fair value method of accounting and recognize the compensation expense in their financial statements. The Company implemented this amended standard in 2004. The company recorded $2.6 million in stock based compensation expense for 2004, up from $771,000 recorded in 2003.

INTEREST

During 2004 the Corporation paid $1.1 million in interest on its revolving production loan facility, which at year end had a drawn balance of $10.75 million. $1.5 million of interest expenses were incurred in 2003.

Interest income of $493,000 was earned by the Corporation in 2004 on its Offshore Nova Scotia license term deposits compared to $364,000 earned in 2003.

DEPLETION AND AMORTIZATION

Depletion and amortization expense for 2004 totaled $22.2 million, up from $14.3 million in 2003. The large increase in 2004 depletion over 2003 is the result of several factors. Depletion is calculated on a quarterly basis, and as such, the increased depletion expense relating to the Drumheller purchase didn't occur until the second quarter of 2003 when the transaction closed, also, preliminary reserve estimates used in the second and third quarter of 2003 were higher than the actual reserves given on the December 31, 2003 independent reserve evaluation causing a lower depletion percentage used against capital assets. Additionally, approximately $16.0 million of Mariner I-85 well costs were added to the Corporations full cost pool for depletion purposes in the third quarter of 2004 which increased DD&A in both the third and forth quarter of 2004. DD&A has been restated as per Note 6 in accordance with the adoption of a new accounting standard regarding asset retirement obligations. The adoption of this new standard increased both 2004 and 2003 depletion expense by approximately $1.0 million.

ASSET RETIREMENT OBLIGATION

The new CICA standard dealing with accounting for asset retirement obligations changes the method of accruing for certain site restoration costs. Under the new standard, the fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred, which is typically when the related assets are acquired, installed, drilled or completed. Amounts recorded for the related assets are increased by the amount of these obligations. Over time the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets.

The total estimated undiscounted cash flows required to settle the obligation, using an annual inflation rate of 1.5%, is $14.2 million which has been discounted using a credit adjusted risk-free interest rate of 8.5% for 2004 and 7.0 % for 2003 and prior years. These payments are expected to be made over the next 10 to 13 years with the majority of costs incurred between 2016 and 2017.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

As at December 31 ($000's)	2004	2003
Asset Retirement Obligation, beginning of year	$ 5,979	$ 1,043
Liabilities incurred	900	4,652
Accretion expense	456	284
Technical revisions	(158)	-
Asset Retirement Obligation, end of year	$ 7,177	$ 5,979

TAXES

The Corporation recorded current taxes only in respect of the federal Large Corporations Tax. The Large Corporations Tax is based on the Corporation's year-end book value, and was $261,000 in 2004. As a result of the loss from operations of $4.3 million reported in 2004, a reduction in future income taxes of $1.5 million was recorded. The Corporation does not expect to be cash taxable in 2005.

CAPITAL EXPENDITURES

Years ended December 31 ($000's)	2004	2003	% change
Acquisition/(Disposition)	$ **1,070**	$ 54,160	n/a
Exploration & Development	**23,597**	17,801	33
Plants, Facilities & Pipelines	**6,696**	2,787	140
Land & Lease	**2,116**	1,325	60
Seismic	**4,297**	3,859	11
Capitalized expenses	**4,445**	4,063	9
	$ **42,221**	$ 83,995	(50)

The Corporation incurred $42.2 million of capital expenditures in 2004 including approximately $11.0 million related to the Corporation's share of the Mariner I-85 well. In 2003, the Corporation spent $84 million on capital expenditures which included $54.2 million for the Drumheller acquisition. 2004 capital expenditures include the costs of drilling 38 gross wells in Western Canada, compared to 17 wells drilled in 2003. Exploration and development expenses in 2003 also include approximately $5.5 million for the Corporation's share of the Mariner I-85 well costs.

CEILING TEST

The Corporation has adopted CICA Accounting Guideline 16 "Oil and Gas Accounting – Full Cost" effective for its fourth quarter 2003. This guideline limits the carrying value of oil and gas properties to their fair value in a ceiling test calculation which must be performed at least annually. The fair value is estimated to be the future cash flow from proved and probable reserves using future price forecasts and costs discounted at a risk-free rate. Increased reserves and strong product prices generated an excess carrying amount of assets related to the ceiling of proved plus probable reserves of approximately $6.0 million. No write-down of oil and gas assets was required for 2004 or 2003 under this guideline.

SUMMARY OF QUARTERLY RESULTS

($000's except production amounts)

	31-Dec-04	30-Sep-04	30-Jun-04	31-Mar-04	31-Dec-03	30-Sep-03	30-Jun-03	31-Mar-03
Production								
Oil bbls/d	691.4	653.1	602.9	614.2	731.8	797.8	671.4	122
Gas mcf/d	12,208.9	10,489.8	11,427.5	11,881.5	11,431.0	11,692.0	12,639.7	4,846.0
Gross revenue	11,014	9,282	9,315	9,072	8,642	9,087	9,888	4,001
Net income (loss)	280	(2,267)	(271)	(766)	(728)	(6)	495	(713)
Loss per share	(0.0)	(0.02)	(0.0)	(0.1)	(0.0)	(0.0)	0.01	(0.01)
Cash flow from operations	5,968	4,526	5,312	4,436	3,676	4,317	4,696	658
Cash flow per share	0.06	0.04	0.05	0.04	0.04	0.05	0.05	0.01

LIQUIDITY AND CAPITAL RESOURCES

The Corporation's current $24.0 million revolving production loan facility expires on May 31, 2005 unless renewed or extended. At December 31, 2004, $10.75 million was drawn on this facility. As at March 31, 2005, approximately $12.3 million is outstanding on this facility, and the Corporation has approximately $2.6 million in cash deposits available for corporate purposes. In addition to the $2.6 million of available cash currently on hand, the Corporation has $14.5 million of term deposits posted as security against its remaining Offshore Nova Scotia work expenditure bids of which applications for approximately $300,000 have been submitted by the company for a refund for work performed. The Corporation is currently reviewing alternatives for replacement of its $24.0 million revolving production loan facility and is confident such financing will be available if required.

The Corporation's 2005 Western Canadian exploration and development expenditures are expected to be primarily funded from operating cash flow. If additional cash is required to fund planned 2005 capital programs, in particular programs Offshore Nova Scotia and Offshore Trinidad, it may be sourced from equity financings or, in the case of Offshore Nova Scotia activities, from potential releases of secured term deposits as additional work expenditures are incurred. The Corporation may also elect to farm-out portions of its Offshore Nova Scotia and Trinidad acreage, or enter into other arrangements with third parties, thereby reducing capital required from the Corporation to fund these prospects.

CONTRACTUAL OBLIGATIONS

In the normal course of business, Canadian Superior is obligated to make future contractual payments. These obligations represent contracts and other commitments that are known and non-cancelable.

Payments due by period ($000's)	2005	2006	2007	2008	2009	Total
Office leases	$ 955	$ 955	$ 912	$ 863	$ 210	$ 3,895
Operating leases	209	201	72	7	-	489
Firm service transportation	148	113	52	21	9	343
Flow-through share renunciation obligations	3,443	-	-	-	-	3,443
Total	$ 4,755	$ 1,269	$ 1,036	$ 891	$ 219	$ 8,170

BUSINESS RISKS

Companies engaged in the oil and gas industry are exposed to a number of business risks, which can be described as operational and financial risks, many of which are outside of Canadian Superior's control. More specifically these include risks of economically finding reserves and producing oil and gas in commercial quantities, marketing the production, commodity prices and interest rate fluctuations and environmental and safety risks. In order to mitigate these risks, the Corporation has an experienced base of qualified personnel, both technical and financial, and maintains an insurance program that is consistent with industry standards.

At December 31, 2004, the Corporation had $14.2 million of term deposits posted as security against its remaining Offshore Nova Scotia work expenditure bids. To the extent that expenditures are not incurred within the periods allowed, the Corporation would forfeit its proportionate share of any remaining deposits relating to the unexpended work commitment.

The Corporation's existing production loan facility expires on May 31, 2005, unless renewed or extended. The Corporation is currently reviewing alternatives for replacement of its $24.0 million revolving production loan facility.

SIGNIFICANT ACCOUNTING POLICIES

Use of estimates
The amounts recorded for depletion and amortization of oil and gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved and probable reserves, production rates, oil and gas prices, future costs and other relevant assumptions. These estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Stock-based compensation plans
The Corporation has adopted the application of the new accounting policy for stock-based compensation (CICA Section 3870) as of January 1, 2004, with retroactive effect to January 1, 2002. This section requires all stock options granted to employees, directors or consultants of the Corporation to be fair valued and recorded as a compensation expense when granted. The Black-Scholes option pricing model was used to estimate the fair value of options on the date of the grant and vesting, for inclusion as the stock-based compensation expense to Contributed Surplus. Retroactive adjustments were made for previous years. For the year ended December 31, 2004, $2.6 million was expensed as stock-based compensation compared to $711,000 recorded in 2003. Total Contributed Surplus at December 31, 2004 relating to stock based compensation since the inception of the Company amounts to $4.0 million.

Asset retirement obligations
The Corporation has adopted the retroactive application of the new accounting policy for asset retirement obligations (CICA Section 3110) as of January 1, 2004. All existing reclamation and abandonment liabilities have been reversed and the new standard has been set up with prior years being restated. The obligation has been measured and recorded at fair value and the corresponding oil and gas assets have been increased. The capitalized costs have been included in the asset base, and are being amortized to depletion expense over the useful life of the asset. The liability will be adjusted over time with a corresponding accretion expense until the obligations are settled.

CONTINUOUS DISCLOSURE OBLIGATIONS

Effective March 31, 2004, the Corporation and all reporting issuers in Canada were subject to new disclosure requirements as per National Instrument 51-102 "Continuous Disclosure Obligations". This new instrument is effective for fiscal years beginning on or after January 1, 2004. The instrument proposes shorter reporting periods for filing of annual and interim financial statements, MD&A and the Annual Information Form ("AIF"). The instrument also proposes enhanced disclosure in the annual and interim financial statements, MD&A and AIFs. Under this new instrument, it will no longer be mandatory for the Corporation to mail annual and interim financial statements and MD&A to Shareholders, but rather these documents will be provided on an "as requested" basis. It is Canadian Superior's intention to make these documents available on the Corporation's website on a continuous basis.

CORPORATE GOVERNANCE

The Company is continually striving to ensure that high quality corporate governance practices are maintained. To formally facilitate this goal, the Company has recently formalized a Corporate Disclosure Policy and a Corporate Code of Conduct which has been approved by the Board of Directors, the latter of which complies with the requirements of Sarbanes Oxley. As part of this process, the Board has approved a formal Disclosure Committee which is made up of selected senior management of the Company and one independent director. The formal Corporate Disclosure Policy has also been approved by the Toronto Stock Exchange.

COMPARISON OF FOURTH QUARTER 2004 WITH FOURTH QUARTER 2003

PRODUCTION PRICING, REVENUE AND ROYALTIES

Average daily production for the fourth quarter of 2004 increased to 2,726 boe/d, up 3.4% from 2,637 boe/d recorded in the fourth quarter of 2003. This included 12,209 mcf/d of gas production in the fourth quarter of 2004 compared to 11,431 mcf/d produced in the fourth quarter of 2003, as well as 691 bbls/d of oil and liquids production in the fourth quarter of 2004, down from 732 bbls/d recorded in 2003. Gas price in last three months of 2004 averaged $7.01, and was up 15.6% from $6.09 recorded over the same period in 2003. Oil prices rose to $48.58 in the fourth quarter of 2004, up 46% from $33.17 recorded over the same period in 2003. Royalties, net of the Alberta Royalty Tax Credit, in the fourth quarter of 2004 of $1,009 was down from fourth quarter 2003 royalties of $1,551.

PRODUCTION AND OPERATING EXPENSES

Production and operating expenses for the quarter of $2.0 million was up 31.6% from expenses of $1.5 million recorded over the same period in 2003. On a boe basis, operating expenses for the quarter averaged $7.97 per boe, up from $6.18 per boe in 2003.

GENERAL AND ADMINSTRATIVE EXPENSES

General and administrative expenditures for the quarter of $1.4 million is the same as the general and administrative expenses recorded for the same period in 2003. On a boe basis, third quarter 2004 G&A of $5.58 per boe was down 6% from $5.83 per boe recorded in 2003.

INTEREST EXPENSE AND INCOME

Interest expense for the last three months of 2004 of $657,000 was up 46% from $450,000 recorded in 2003 as a result of higher drilling activity in the third quarter of 2004 creating an increased draw on our revolving line of credit. Interest income for the quarter totaled $84,000 in 2004 compared to $76,000 in 2003.

DEPLETION, AMORTIZATION AND ACCRETION

Depletion, amortization and accretion expense in the fourth quarter of 2004 of $5.8 million was up 18% from 2003 DD&A of $4.9 million. The increase is largely created by the inclusion of the Mariner I-85 costs being included in the depleteable pool in 2004.

TAXES

Capital tax in quarter of $56,000 was down from $117,000 reported in 2003. This reduction was mainly created by a reduction in the rate used to calculate capital taxes to 2% from 2.25% in 2003. A future tax credit for the quarter of $953,000 up slightly from the credit of $878,000 recorded in 2003.

NET INCOME (LOSS)

The net income for the quarter totaled $280,000 compared to a net loss of $728,000 in 2003.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The preparation of the accompanying consolidated financial statements in accordance with accounting principles generally accepted in Canada is the responsibility of management. Financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Where necessary, the financial statements include estimates, which are based on management's informed judgments. Management has established systems of internal controls, which are designed to provide reasonable assurance those assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. It exercises its responsibilities primarily through the Audit Committee, whose members are non-management directors. The Audit Committee has reviewed the consolidated financial statements with management and the auditors and has reported to the Board of Directors which has approved the consolidated financial statements.

KPMG LLP are independent auditors appointed by Canadian Superior Energy Inc.'s shareholders. The auditors have audited the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express an opinion on the fairness of the presentation of the financial statements in accordance with Canadian generally accepted accounting principles.

Greg S. Noval
President

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Canadian Superior Energy Inc. as at December 31, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CALGARY, CANADA
March 31, 2005

KPMG LLP
CHARTERED ACCOUNTANTS

(Thousands of dollars)

	2004	2003
Assets		*Restated (Note 2)*
Current assets		
Cash and short-term investments	$ 1,725	$ 9,328
Accounts receivable	5,808	3,540
Nova Scotia offshore drilling security deposit (Note 12)	-	10,000
Prepaid expenses	593	568
	$ 8,126	$ 23,436
Nova Scotia offshore term deposits (Note 4 and 12)	14,169	13,839
Petroleum and natural gas properties (Note 5)	128,716	107,474
	$ 151,011	$ 144,749
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 10,756	$ 14,630
Revolving production loan (Note 6)	10,750	12,550
	21,506	27,180
Asset retirement obligation (Note 7)	7,177	5,979
Future income taxes (Note 8)	8,778	9,220
	37,461	42,379
Shareholders' Equity		
Share capital (Note 9)	114,626	102,404
Contributed surplus (Note 9)	3,386	1,404
Deficit	(4,462)	(1,438)
	113,550	102,370
Related party transactions (Note 10)		
Contingencies and commitments (Note 12)		
Subsequent events (Note 13)		
	$ 151,011	$ 144,749

See accompanying notes to consolidated financial statements

Approved by the Board

Greg S. Noval
Director

Leigh Bilton
Director

(Thousands of dollars except per share amounts)

	2004	2003
		Restated (Note 2)
Revenue		
Oil and gas	$ 38,684	$ 31,618
Royalties net of royalty tax credit	(5,805)	(6,050)
	32,879	25,568
Expenses		
Production and operating	7,151	5,992
General and administration (Note 5)	4,614	4,849
Interest	1,104	1,456
Depletion, amortization and accretion	22,177	14,291
Stock based compensation	2,612	771
	37,658	27,359
Loss from operations	(4,779)	(1,791)
Interest income	493	364
Loss before income taxes	(4,286)	(1,427)
Income taxes (reduction)		
Capital	261	288
Future reduction (Note 8)	(1,523)	(763)
	(1,262)	(475)
Net loss	(3,024)	(952)
Deficit, beginning of year, as previously reported	(312)	(17,057)
Accounting changes (Note 2)	(1,126)	(486)
Deficit, beginning of year, as restated	(1,438)	(17,543)
Reduction in stated capital (Note 9 (f))	-	17,057
Deficit, end of year	$ (4,462)	$ (1,438)
Loss per share	$ (0.03)	$ (0.01)
Diluted loss per share	$ (0.03)	$ (0.01)

See accompanying notes to consolidated financial statements

(Thousands of dollars)

		2004		2003
Cash provided by (used in)				*Restated (Note 2)*
OPERATIONS				
Net loss	$	**(3,024)**	$	(952)
Items not involved in cash for operations				
Depletion, depreciation and accretion		**22,177**		14,291
Stock based compensation		**2,612**		771
Future income taxes reduction		**(1,523)**		(763)
Funds from operations		**20,242**		13,347
Change in non cash working capital (Note 3)		**(2,541)**		5,108
		17,701		18,455
FINANCING				
Issue of shares		**12,673**		74,195
Redemption (issue) of Nova Scotia offshore term and security deposits, net		**9,670**		(11,807)
Increase (repayment) of revolving production loan		**(1,800)**		7,400
		20,543		69,788
INVESTING ACTIVITIES				
Acquisition of oil and gas assets		**(1,070)**		(54,160)
Exploration and development expenditures		**(41,151)**		(29,835)
Change in non-cash working capital (Note 3)		**(3,626)**		5,080
		(45,847)		(78,915)
Increase (decrease) in cash and short term investments		**(7,603)**		9,328
Cash and short term investments, beginning of year		**9,328**		-
Cash and short term investments, end of year	$	**1,725**	$	9,328

See accompanying notes to consolidated financial statements

Note 1 - Accounting Policies

a) Principles of consolidation - The consolidated financial statements include the accounts of the Corporation and the accounts of its wholly-owned subsidiaries.

b) Cash and short-term investments - Cash and short-term investments consist of balances with banks and investments in highly liquid short-term deposits with a maturity date of less than ninety days.

c) Depletion and Amortization – Canadian Superior Energy Inc. is engaged in the acquisition, exploration, development and production of oil and gas principally in Canada. The Corporation follows the full-cost method of accounting for oil and gas operations whereby all costs relating to the acquisition of, exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on nonproducing properties, costs of drilling both productive and nonproductive wells, costs of production equipment and overhead charges related to acquisition, exploration and development activities.
The costs are amortized using the unit-of-production method based upon the estimated proved oil and gas reserves, before royalties, as determined by the Corporation's independent engineers. Oil and gas reserves and production are converted into equivalent units based upon relative energy content.
Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

The Corporation performs a ceiling test in a two-stage test performed at least annually:

i) Impairment is recognized if the carrying value of the oil and gas assets less accumulated depletion and amortization and the lesser of cost and fair value of unproven properties exceeds the estimated future cash flows from proved oil and gas reserves, on an undiscounted basis, using forecast prices and costs.
ii) If impairment is indicated by applying the calculations described in i) above, the Corporation will measure the amount of the impairment by comparing the carrying value of the oil and gas assets less accumulated depletion and amortization and the lesser of cost and fair value of unproven properties to the estimated future cash flows from the proved and probable oil and gas reserves, discounted at the Corporation's credit-adjusted risk-free rate of interest, using forecast prices and costs.

Proceeds received from disposals of properties and equipment are credited against capitalized costs unless the disposal would alter the rate of depletion and depreciation by more than 20 percent, in which case a gain or loss on disposal is recorded.

d) Joint Ventures - The Corporation's exploration and development activities related to oil and gas are conducted jointly with others. The accounts reflect only the Corporation's proportionate interest in such activities.

e) Income Taxes - The Corporation follows the liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

f) Revenue recognition - Revenue from the sale of oil and gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation, and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

g) Flow-through shares - The Corporation, from time to time, issues flow-through shares to finance a portion of its oil and gas exploration activities. The exploration and development expenditures funded by flow-through shares are renounced to subscribers in accordance with the Income Tax Act (Canada). The estimated value of the tax pools foregone is reflected as a reduction in share capital with a corresponding increase in the future income tax liability.

h) Measurement Uncertainty - The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

i) Per Share Amounts – The Corporation follows the treasury stock method for the computation of diluted per share amounts. This method assumes the proceeds from the exercise of dilutive options and warrants are used to purchase common shares at the weighted average market price during the period.

(Tabular amounts in thousands except per share amounts)

Note 2 - Change in Policy

a) **Stock Based Compensation and other Stock Based Payments**

Effective January 1, 2004, the Corporation retroactively adopted the new Canadian standard for "Stock Based Compensation". This standard requires that companies measure all stock based payments using the fair value method of accounting and recognize the compensation expense in their financial statements. Per the transitional provisions, adoption requires that compensation expense be calculated and recorded in the statement of operations for options and warrants issued on or after January 1, 2003.

b) **Asset Retirement Obligations**

Effective January 1, 2004 the Corporation retroactively adopted the new Canadian standard for "Asset Retirement Obligations". This standard requires the recognition of the fair value of obligations associated with the retirement of tangible long-lived assets to be recorded in the period the asset is put to use, with the corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to asset retirement accretion which is included in depletion, amortization and accretion expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depreciation and amortization of the underlying assets. Revisions to the estimated timing of cash flows or to the original estimated undiscounted costs could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded. Prior to January 1, 2004, the Corporation provided for future site restoration and abandonment costs over the life of the proved reserves on a unit-of-production basis.

c) **Hedging relationships**

The Corporation has implemented new Canadian accounting guidelines for hedging relationships, which address the identification, designation, documentation and effectiveness of hedging transactions for the purposes of applying hedge accounting. It also established conditions for applying or discontinuing hedge accounting. Under the new guideline, hedging transactions must be documented and it must be demonstrated that the hedges are sufficiently effective in order to continue accrual accounting for position hedges with derivatives.

d) **Impact of policy changes on 2003 Financial Statements**

The adoption of the new accounting policies for stock based compensation and asset retirement obligations has been applied retroactively with the following impact on the 2003 comparative figures:

Balance Sheet - debit (credit)	
Petroleum and natural gas properties	$ 4,797
Asset Retirement Obligation	(5,979)
Provision for Future Site Restoration	1,634
Future Income Taxes	(174)
Contributed Surplus	(1,404)
Deficit, end of year	1,126
Deficit, beginning of year	486
Statement of operations - debit (credit)	
Depletion, amortization and accretion	$ 1,027
Future site restoration	(1,223)
Stock based compensation	771
Future income tax reduction	65
Decrease in net income	$ 640
Loss per share – basic and diluted	$ (0.01)

(Tabular amounts in thousands except per share amounts)

Note 3 - Changes in Non-Cash Working Capital and other Cash Flow Information

	2004 Change	2003 Change
Accounts Receivable	$ (2,268)	$ 714
Nova Scotia offshore drilling security deposit	10,000	(10,000)
Prepaid expenses	(25)	1,156
Accounts payable	(3,874)	8,318
Change in non-cash working capital	$ 3,833	$ 188
Related to:		
Operating activity	$ (2,541)	$ 5,108
Financing activity	10,000	(10,000)
Investing activity	(3,626)	5,080
Change in non-cash working capital	$ 3,833	$ 188
Interest paid during year	$ 1,104	$ 1,456
Taxes paid during year	$ 271	$ 76

Note 4 – Nova Scotia Offshore Term Deposits

Under the terms of the licenses referred to in Note 12(a), the Corporation has assigned term deposits totaling $14,169,000 (2003 - $13,839,000). Accordingly, this amount has been classified as a noncurrent asset. To the extent that the expenditures are not incurred within the period allowed, the Corporation would forfeit its proportionate share of any remaining deposits relating to the unexpended work commitment.

Note 5 – Petroleum and Natural Gas Properties

	Cost	Accumulated Depletion and Amortization	Net
2004	$ 173,157	$ 44,441	$ 128,716
2003 - restated (Note 2)	131,221	23,747	107,474

Future development costs related to proven undeveloped reserves of $3,647,000 (2003 - $3,453,000) have been included in the depletion base calculation at December 31, 2004.

At December 31, 2004, the Corporation has excluded $28,746,000 (2003 - $27,281,000) of oil and gas properties relating to unproved properties from costs subject to depletion, including $2.7 million relating to its interests in Trinidad and Tobago.

General and administrative expenses totaling $4,445,000 (2003 - $4,063,000), of which $767,000 (2003 - $390,000) pertained to the Nova Scotia project, that were directly related to exploration and development activities have been capitalized for the year ended December 31, 2004.

The benchmark prices, on which the ceiling test is based, are as follows:

Year	WTI Crude Oil (US$/bbl)	Exchange Rate (US$/CDN$)	Edmonton Light Crude (CDN$/bbl)	AECO Natural Gas (CDN$/mmbtu)
2005	42.00	0.82	50.25	6.60
2006	40.00	0.82	47.75	6.35
2007	38.00	0.82	45.50	6.15
2008	36.00	0.82	43.25	6.00
2009	34.00	0.82	40.75	6.00
2010	33.00	0.82	39.50	6.00

Benchmark prices increase at a rate of 2.0% per year for both oil and natural gas after 2010. Adjustments were made to the benchmark prices above, for purposes of the ceiling test, to reflect forward contracts the Corporation has in place, varied delivery points and quality differentials in the products delivered. For the years ended December 31, 2003 and 2004, no ceiling test write-down was required.

Note 6 – Revolving Production Loan

At December 31, 2004 the Corporation had a demand revolving production loan facility (the "facility") with a Canadian chartered bank of $24,000,000 of which it had drawn $10,750,000. The facility bears interest at prime plus 0.75% on the first $22.5 million of the facility and prime plus 1.0% on the excess. The facility is secured by a $50 million first floating charge demand debenture on the assets of the Corporation and a general security agreement covering all of the assets of the Corporation. The facility expires May 31, 2005 unless extended. The Corporation is currently reviewing alternatives for replacement of its $24.0 million revolving production loan facility and is confident such financing will be available if required.

Note 7 – Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

As at December 31 ($000's)	2004	2003
Asset retirement obligation, beginning of year	$ 5,979	$ 1,043
Liabilities incurred	900	4,652
Accretion expense	456	284
Technical revision	(158)	-
Asset retirement obligation, end of year	$ 7,177	$ 5,979

The technical revision was the result of adjusting the credit adjusted risk free rate to 8.5% for wells drilled in 2004 from 7.0% used in 2003 and prior. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation is approximately $14,197,000 (2003 – 11,791,000) which will be incurred between 2015 and 2017.

Note 8 Income Taxes

The net future income tax liability is comprised of:

a) Summary of temporary differences giving rise to future income tax liability:

	2004	2003
Future income tax liabilities		Restated (Note 2)
Oil and gas assets in excess of tax balances	$ 12,628	$ 13,470
Future income tax assets		
Share issue costs	(1,437)	(2,180)
Asset retirement obligation	(2,413)	(2,070)
	(3,850)	(4,250)
Net future income tax liability	$ 8,778	$ 9,220

b) Reconciliation of income taxes calculated at the Canadian statutory rate of 38.6% (2003 – 40.6%) with actual income taxes:

	2004	2003 Restated (Note 2)
Loss before income taxes	$ (4,286)	$ (1,427)
Combined federal and provincial income tax rate	38.6%	40.6%
Computed income tax reduction	$ (1,654)	$ (579)
Increase (decrease) resulting from:		
Non deductible Crown Royalties, net of ARTC	1,224	1,755
Resource Allowance	(1,397)	(1,474)
Stock based compensation	1,008	313
Tax adjustment from rate change and other	(704)	(778)
	$ (1,523)	$ (763)

(Tabular amounts in thousands except per share amounts)

Note 9 Share Capital

a) Authorized:
Unlimited number of common shares
Unlimited number of preferred shares

b) Voting common shares issued:

	Number	Amount
Balance at January 1, 2003	65,032	$ 49,927
Reduction of stated capital	-	(17,057)
Issued for cash	22,440	35,000
Issued upon exercise of stock options	1,625	1,601
Issued upon exercise of warrants	1,206	2,412
Issued for cash on flow-through shares	5,798	17,765
Tax benefits renounced on flow-through shares	-	(6,396)
Issue costs, net of future tax reduction of $1,915	-	(3,157)
Balance, as at December 31, 2003	96,101	80,095
Issued upon conversion of special warrants	7,543	22,834
Issued upon exercise of stock options	1,299	1,462
Issued upon exercise of $2.00 purchase warrants	3,002	6,004
Issued upon exercise of $3.20 purchase warrants	484	1,549
Issued for cash on flow-through shares	1,377	3,443
Tax benefits renounced on flow-through shares	-	(1,188)
Issue costs, net of future tax reduction of $106	-	(203)
Value of stock compensation for exercised options	-	630
Balance, as at December 31, 2004	109,806	$ 114,626

c) Special warrants issued:

	Number	Amount
Balance at January 1, 2003	-	$ -
Issued for cash:		
Flow-through special warrants	143	500
Tax benefits renounced on flow-through special warrants	-	(180)
Special warrants	7,225	21,989
Balance at December 31, 2003	7,368	22,309
Special warrants issued for cash	175	525
Converted upon issuance of common shares	(7,543)	(22,834)
Balance at December 31, 2004	0	$ 0

On February 6, 2004 the Corporation filed a short form prospectus qualifying the distribution of: (a) 7,400,180 common shares and 2,466,726 common share purchase warrants upon the exercise of the 7,225,180 special warrants issued on December 16th and 24th, 2003 (as above) and an additional 175,000 special warrants issued on January 12, 2004 and (b) 142,857 flow-through common shares upon the exercise of 142,857 flow-through special warrants issued on December 31, 2003 (as above).

d) Purchase Warrants issued:

i) On March 20, 2003, the Corporation issued 9.0 million units for gross proceeds of $13.6 million, relating to a best efforts unit offering. Each $1.50 unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase a common share until March 19, 2004 at a price of $2.00 per common share.

(Tabular amounts in thousands except per share amounts)

The following table summarizes the $2.00 purchase warrant activity:

	Number
Balance at January 1, 2003	-
Issued March 20, 2003	4,574
Exercised, total as at December 31, 2003	(1,206)
Balance, as at December 31, 2003	3,368
Exercised January 1 – March 19, 2004	(3,002)
Unexercised, and expired as of March 20, 2004	(366)
Outstanding, as at December 31, 2004	0

ii) As described in Note 9(c) in February 2004, the Corporation filed a short form prospectus qualifying the distribution of 2,466,726 common share purchase warrants.
The following table summarizes this $3.20 purchase warrant activity:

	Number
Balance, as at December 31, 2003	-
Issued February 6, 2004	2,467
Exercised	(484)
Expired	(1,983)
Balance, as at December 31, 2004	0

e) Stock options:

The Corporation has a stock option plan for its directors, officers, employees and key consultants. The exercise price for stock options granted is no less than the quoted market price on the grant date with options vesting in equal increments over a three year period. An option's maximum term is ten years.

	2004		2003	
	Number of Options	Weighted Average price	Number of Options	Weighted Average price
Balance, beginning of year	5,133	$ 1.29	5,841	$ 1.12
Forfeited	(2,170)	1.57	(188)	1.35
Exercised	(1,299)	1.13	(1,625)	0.99
Granted	5,707	1.85	1,105	1.73
Balance, end of year	7,371	$ 1.66	5,133	$ 1.29

The following table summarizes information about the stock options outstanding at December 31, 2004:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Options	Weighted Average of Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 0.80-1.00	762	4.32	$ 0.82	762	$ 0.82
1.01-1.50	1,533	7.73	1.29	1,041	1.27
1.51-2.00	3,854	9.17	1.73	1,048	1.79
2.00-3.00	1,222	8.82	2.45	446	2.69
$ 0.80-3.00	7,371	8.35	$ 1.66	3,297	$ 1.52

(Tabular amounts in thousands except per share amounts)

A modified Black-Scholes option pricing model, with the following weighted average assumptions for the year ended December 31, 2004, was used to estimate the fair value of options on the date of the grant, for the inclusion as stock based compensation expense:

	2004	2003
Risk free interest rate (%)	4.0	4.0
Expected lives (years)	5.0	5.0
Expected volatility (%)	93.9	65.0
Dividend per share	0.00	0.00

The grant date weighted average fair value of options issued during 2004 was $1.31 per option.

The impact of adopting the new accounting standard for stock based compensation on the Balance sheet is:

Contributed Surplus	2004	2003
Restated Opening Balance	$ 1,404	$ 633
Additions from issuance of stock options	2,612	771
Reduction from exercise of stock options	(630)	0
Closing balance	$ 3,386	$ 1,404

f) On June 27, 2003, at the Corporation's Annual Meeting of Shareholders, a special resolution was approved authorizing a reduction in the stated capital account for the common shares of the Corporation of $17,057,000, being the Corporation's deficit as at December 31, 2002.

g) During the year ended December 31, 2004, the Corporation entered into flow-through share agreements to issue 1,377,000 common shares for cash consideration of $3,442,500 and to renounce $3,442,500 of qualified expenditures.

h) During the year ended December 31, 2003, the Corporation entered into flow-through share agreements to issue 5,941,000 common shares for cash consideration of $18,265,000 and to renounce $18,265,000 of qualified expenditures.

i) Per share amounts for Loss per share were calculated using the weighted average number of common shares outstanding of 106,465,000 for 2004 and 85,082,000 for 2003. The exercise of stock options and warrants would be anti-dilutive in 2004 and 2003.

Note 10 Related Party Transactions

a) During the year ended December 31, 2004, the Corporation paid $628,000 (2003 - $912,000) for oilfield equipment rentals to a company controlled by a director and for aircraft rentals to a company controlled by an officer and director of the Corporation. During the year, the Corporation paid $107,000 (2003 - nil) to a company controlled by an officer and director of the Corporation for consulting services. At December 31, 2004, accounts receivable included a $27,000 advance on expenditures to an officer and director of the Corporation. This amount was recovered subsequent to December 2004. In November 2004, the Corporation entered into farm-out and participation agreements of operations with a corporation controlled by an officer and director of the Corporation in respect of the Corporation's East Coast and Trinidad prospects. The corporation has the right to paticipate on a promoted basis for 16 2/3% of Canadian Superior's costs of the East Coast wells and 33 1/3 % of Canadian Superior's costs of certain earning wells in Trinidad.

b) In March 2003, the Corporation received $1.5 million from a company controlled by an officer and director of the Corporation. The amount was fully repaid by the Corporation in November 2003, including interest in the amount of $99,986.

Note 11 Risk Management

The carrying values of financial assets and liabilities approximate their fair value due to their short periods to maturity, or the market interest rate on the revolving production loan.

A substantial portion of the Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Corporation's oil, gas and natural gas liquids are subject to an internal credit review to minimize the risk of nonpayment.

The Corporation is exposed to foreign currency fluctuations as oil and gas prices received are referenced to U.S. dollar denominated prices. The Corporation is exposed to a floating interest rate on its revolving production loan.

The Corporation enters into commodity sales agreements and certain derivative financial instruments to reduce its exposure to commodity price volatility. These financial instruments are entered into solely for hedging purposes and are not used for trading or other speculative purposes.

At December 31, 2004, the Corporation had the following contracts in place:

(Tabular amounts in thousands except per share amounts)

Contract	Volume	Price	Term
Natural Gas			
Fixed Price	1,000 gj per day	$9.37/gj (Aeco)	January 1 – March 31, 2005
Costless Collar	1,000 gj per day	$7.00 to $13.50/gj (Aeco)	January 1 – March 31, 2005
Crude Oil			
Fixed Price	100 bbls per day	$44.25 USD/bbl WTI	January 1 – March 31, 2005

At December 31, 2004, the estimated fair value of the above financial instruments was a gain of $358,000.

During 2004, the Corporation's hedging activities resulted in a loss of $496,000 which was recorded as a decrease in oil and gas revenues during the period.

Note 12 Contingencies and Commitments

a) Nova Scotia: During 2000, 2001 and 2003, the Corporation acquired six exploration licenses from the Canada-Nova Scotia Offshore Petroleum Board. These licenses are for a period of nine years in total, subject to certain requirements being met during the first five years. As a condition of the licenses, the Corporation is required to post security in the amount of 25% of its work expenditure bids. The deposit is refundable only to the extent of approved allowable expenditures. The duration of the initial five year term, for a given license, can be extended one additional year to six years by posting an additional security deposit in an amount of $250,000. At December 31, 2004, as a result of the Corporation having made certain expenditures, the Corporation had fulfilled its work expenditures on two of the six exploration licenses. The remaining four exploration licenses are currently owned 100 percent by the Corporation and have aggregate work expenditure outstanding of $57,877,000, and as such the Corporation has $14,469,000 in term deposits assigned to the Canada – Nova Scotia Offshore Petroleum Board, of which $14,169,000 is long term, and $300,000 is a current receivable relating to applications submitted for refunds. Under the terms of the Mariner I-85 exploration drilling program, the Corporation had a $10,000,000 drilling security deposit posted with the Canada - Nova Scotia Offshore Petroleum Board at December 31, 2003. This deposit, with interest, was returned to the Corporation in March 2004.

b) Flow-through Expenditures: At December 31, 2004, the Corporation had yet to incur approximately $3.4 million of Canadian exploration expenses which were renounced for tax purposes. These expenses must be incurred by December 31, 2005.

c) Litigation and Claims: The Corporation is involved in various claims and litigation arising in the ordinary course of business. In the opinion of Canadian Superior the various claims and litigations arising there from are not expected to have a material adverse effect on the Corporation's financial position. The Corporation maintains insurance, which in the opinion of the Corporation, is in place to address any unforeseen claims.

During 2004, a number of class action proceedings were initiated against the Corporation and certain of its directors and officers in the United States District Court, Southern District of New York, in the Ontario Superior Court of Justice and the Quebec Superior Court by Plaintiffs alleging to have purchased securities of the Corporation and alleging they suffered damages resulting from statements by the Corporation regarding the Corporation's Mariner I-85 exploration well drilled offshore Nova Scotia. The Corporation and the individuals involved categorically deny these allegations and have advised the Corporation's insurer of the same. The Corporation views these actions to be without merit and intends to aggressively deal with these matters.

d) Prospect Commitment Fee: During 2002, the Corporation received a $10 million prospect commitment fee related to its "Marquis" Prospect Offshore Nova Scotia. In the event that any natural gas or other hydrocarbons in commercial quantities are produced from a well on the "Marquis" Prospect, the Corporation will be obligated to repay the amount in 12 quarterly installments following commencement of commercial production.

e) Lease Obligations: The Corporation has entered into agreements to lease premises and equipment requiring future minimum payments totaling $4,727,000. Minimum annual payments during the next five fiscal years are as follows:

2005	$	1,312,000
2006	$	1,269,000
2007	$	1,036,000
2008	$	891,000
2009	$	219,000

Note 13 Subsequent Events

a) Hedging – Subsequent to December 31, 2004 the Corporation entered into a foreword 'costless collar' transaction of oil with a floor price of $43.85 USD/bbl and a ceiling of $51.00 USD/bbl on 100 bbls/d for the period April 1, 2005 through December 31, 2005.

DIRECTORS

Greg Noval, B.Comm., B.A. (Econ.), LLB
President, CEO & Director
Leigh Bilton
Executive Vice President, Vice President, Western Canada Operations & Director
Alex Squires, B.Sc. (Ind.Eng.), MBA, C.F.A.
Director
Gerald J. Maier, B.Sc. (Pet. Eng.), O.C., C.D., LL.D., FCAE
Director
Charles Dallas
Director
T.J. (Jake) Harp, B.Sc. (Pet. Eng.), P.Geoph.
Director

OFFICERS AND SENIOR MANAGEMENT

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President & CEO
Leigh Bilton
Executive Vice President & Vice President, Western Canada Operations
Michael E. Coolen, B.Sc., B.Eng. (Mech), P.Eng.
Vice President, East Coast Operations
Mel Marshall, B.Sc., Geophysics, P.Geoph.
Vice President, Exploration
Ross A. Jones, C.M.A.
Chief Financial Officer
Mark Gillis, B.Eng. (Mech), P.Eng.
Manager, East Coast Operations
Neil Dore, P.Eng.
GM - Western Canada, Operations

THE CANADIAN SUPERIOR TEAM

CALGARY

Agustin Aparicio
Geologist
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STOCK EXCHANGE LISTING

The Toronto Stock Exchange
American Stock Exchange
Trading Symbol: SNG

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